PATHWAYS ACADEMY

Financial Report
with Supplemental Information
June 30, 2026

PATHWAYS ACADEMY

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Independent Auditor's Report

To Management
and the Board of Directors of
Pathways Academy

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, and the aggregate remaining information of Pathways Academy (the 'Academy'), as of and for the year ended June 30, 2026, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Pathways Academy as of June 30, 2026, and the respective changes in financial position for the year then ended in accordance with generally accounting principles accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States ("Government Auditing Standards'). Our responsibilities under those standards are further described in the Auditors Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Academy, and meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Academy's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we

- exercise professional judgement and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Academy's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's required supplementary information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Government Auditing Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2026, on our consideration of Pathways Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pathways Academy's internal control over financial reporting and compliance.

Wilkerson & Associate PC

Dearborn, Michigan
October 29, 2026

PATHWAYS ACADEMY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2026

Required Supplementary Information - Unaudited

Our discussion and analysis of Pathways Academy's (the "Academy") financial performance provides an overview of the Academy's financial activities for the fiscal year ended June 30, 2026, with comparative information for the fiscal year ended June 30, 2025. This discussion and analysis should be read in conjunction with the Academy's basic financial statements and the notes to those statements. The analysis emphasizes the reasons for significant changes in financial position and results of operations.

Overview of the Financial Statements

This annual report consists of four components: (1) government-wide financial statements, (2) fund financial statements, (3) notes to the basic financial statements, and (4) required supplementary information, including this MD&A and the General Fund budgetary comparison schedule.

Government-wide financial statements

The statement of net position and the statement of activities report the Academy as a whole using the economic resources measurement focus and accrual basis of accounting. Revenues and expenses are recognized regardless of when the related cash is received or paid. The Academy reports governmental activities only. The statement of net position reports assets and liabilities, with the difference reported as net position; the statement of activities reports the current year's revenues and expenses and the resulting change in net position.

Fund financial statements

The governmental fund statements emphasize near-term inflows, outflows, and spendable resources using the current financial resources measurement focus and modified accrual basis of accounting. The General Fund is the Academy's only major governmental fund and its principal operating fund.

Relationship between the government-wide and fund statements

Because the government-wide and governmental fund statements use different measurement focuses and bases of accounting, reported results differ. For 2025-26, the principal reconciling items between the General Fund change in fund balance and the change in governmental activities net position were $365,979 of capital outlay capitalized in the government-wide statements, $133,912 of depreciation expense, $365,979 of proceeds from long-term financing, and $118,378 of principal repayment. These items convert the General Fund increase of $114,679 to the government-wide increase in net position of $99,145.

Notes and required supplementary information

The notes provide information essential to understanding the basic financial statements. Required supplementary information includes the General Fund budgetary comparison schedule. Significant original-to-final and final-to-actual budget variances are addressed with that schedule rather than repeated in this MD&A.

Financial Summary

Table 1 - Condensed Statement of Net Position (Governmental Activities)

	June 30, 2026	June 30, 2025	$ Change	% Change
Current and other assets	2,710,346	2,614,504	95,842	3.7%
Capital assets, net	287,231	55,164	232,067	420.7%
Total assets	**2,997,577**	**2,669,668**	**327,909**	**12.3%**
Current and other liabilities	248,492	145,753	102,739	70.5%
Long-term liabilities	126,025	-	126,025	-
Total liabilities	**374,517**	**145,753**	**228,764**	**157.0%**
Net investment in capital assets	39,630	55,164	(15,534)	-28.2%
Unrestricted	2,583,430	2,468,751	114,679	4.6%
Total net position	**2,623,060**	**2,523,915**	**99,145**	**3.9%**

Table 2 - Condensed Statement of Activities (Governmental Activities)

	Year ended 6/30/2026	Year ended 6/30/2025	$ Change	% Change
Local sources / other general revenues	320,834	354,221	(33,387)	-9.4%
State foundation allowance - unrestricted	2,729,710	2,867,873	(138,163)	-4.8%
Operating grants and contributions	407,842	534,424	(126,582)	-23.7%
Total revenues	**3,458,386**	**3,756,518**	**(298,132)**	**-7.9%**
Instruction	875,905	866,762	9,143	1.1%
Supporting services	2,207,882	2,045,365	162,517	7.9%
Community services	131,423	122,280	9,143	7.5%
Interest on long-term obligations	10,119	2,227	7,892	354.4%
Unallocated depreciation	133,912	122,161	11,751	9.6%
Total expenses	**3,359,241**	**3,158,795**	**200,446**	**6.3%**
Change in net position	**99,145**	**597,723**	**(498,578)**	**-83.4%**
Net position - beginning of year	2,523,915	1,926,192	597,723	31.0%
Net position - end of year	**2,623,060**	**2,523,915**	**99,145**	**3.9%**

Detailed Analyses

Analysis of the primary government's financial position

Total net position increased $99,145, or 3.9 percent, to $2,623,060. Current and other assets increased $95,842, while net capital assets increased $232,067. The increase in capital assets reflects the new right-to-use building asset recorded during the year, partially offset by $133,912 of depreciation and amortization. Total liabilities increased $228,764, principally because the Academy entered into a new building lease and ended the year with $247,601 of related long-term obligations. Unrestricted net position increased $114,679 to $2,583,430, while net investment in capital assets decreased $15,534 to $39,630.

Analysis of the primary government's results of operations

Total revenues decreased $298,132, or 7.9 percent, from 2025. State foundation allowance revenue decreased $138,163. Management attributes the decline principally to lower enrollment: blended student enrollment was 255 in 2025-26 and was approximately 30 students lower than the prior year. Federal grant revenue also declined as ESSER III funding ended; operating grants and contributions decreased $126,582 in total. These reductions were partly offset by a $6,872 increase in state operating-grant revenue.

Total expenses increased $200,446, or 6.3 percent. Supporting services increased $162,517 and represented the largest functional increase. Management relates the higher cost primarily to additional administrative and compensatory-education staffing and services, including special education and security. Instruction increased $9,143, community services increased $9,143, depreciation increased $11,751, and interest on long-term obligations increased $7,892 following commencement of the new building lease. The combined effect of lower revenues and higher expenses reduced the annual increase in net position from $597,723 in 2025 to $99,145 in 2026.

Program-specific operating grants and contributions totaled $407,842 compared with $3,359,241 of governmental-activity expenses. Accordingly, the Academy continued to rely primarily on unrestricted state foundation allowance and other general revenues to finance its programs.

Analysis of major fund balances and results of operations

The General Fund is the Academy's only major fund. General Fund revenue totaled $3,458,385 and expenditures totaled $3,709,685, producing an excess of expenditures over revenue of $251,300 before other financing sources. Proceeds from long-term financing of $365,979 resulted in a $114,679 increase in fund balance. Ending General Fund balance was $2,583,430, consisting of $29,388 of nonspendable prepaid expenditures and $2,554,042 of unassigned fund balance. Unassigned fund balance therefore represents approximately 68.8 percent of current-year General Fund expenditures, providing substantial resources available for subsequent-year operations subject to future Board appropriations and operating needs.

Significant Capital Asset and Long-Term Financing Activity

Table 3 - Capital Assets, Net of Accumulated Depreciation and Amortization

	June 30, 2026	June 30, 2025	$ Change	% Change
Right-to-use asset	365,979	-	365,979	-
Leasehold improvements	37,245	47,887	(10,642)	-22.2%
Computer equipment	5,661	7,277	(1,616)	-22.2%
Furniture	-	-	-	-
Total capital assets, net	**287,231**	**55,164**	**232,067**	**420.7%**

During 2025-26, the Academy recorded a $365,979 right-to-use building asset associated with a new building lease. The prior right-to-use asset with a $329,711 gross carrying amount was removed during the year. Depreciation and amortization totaled $133,912. After those changes, net capital assets increased $232,067 to $287,231 at June 30, 2026.

Table 4 - Long-Term Obligations

	June 30, 2026	June 30, 2025	$ Change	% Change
Building lease obligation	247,601	-	247,601	-
Total long-term obligations	**247,601**	-	**247,601**	-

The Academy entered into a new building lease during the year. Financing activity associated with the lease included $365,979 of additions and $118,378 of principal payments, leaving $247,601 outstanding at June 30, 2026. Of this balance, $121,576 is due within one year and $126,025 is due thereafter. Scheduled interest associated with the remaining obligation totals $9,392 through June 2028.

Currently Known Facts, Decisions, or Conditions

The following facts, decisions, and conditions are known to management as of the date of the independent auditor's report and are expected to have a significant effect on the Academy's financial position or results of operations in future periods.

Enrollment and state funding

The 2026-27 budget was developed using 255 pupils and a $10,050 per-pupil foundation allowance, consistent with the 2025-26 foundation allowance. For the upcoming school year, the foundation allowance has increased and the Academy will receive $10,300 per pupil. Because state foundation allowance is the Academy's largest revenue source, enrollment trends remain a significant factor in future operating results.

2026-27 adopted budget

The 2026-27 budgeted revenue of $3,687,500 and expenditures of $3,545,377, for a planned increase in fund balance of $142,123. Management expects revenues to exceed expenditures in the coming fiscal year and amend the budget throughout the year in alignment enrollment and funding during the year.

Charter and management arrangements

The Academy executed a new charter contract with Detroit Public Schools Community District ("DPSCD") in June 2025 with a term through June 30, 2028. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. DPSCD is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays DPSCD an administrative fee equal to 3% of State aid received, as defined in the charter agreement. For the fiscal year ended June 30, 2026, the Academy incurred approximately $84,200 in administrative oversight fees. The Academy's education-management agreement with Innovative Educational Programs of Michigan, LLC ("The Management Company") was aligned with the new authorizer contract and extends through June 30, 2028. These arrangements continue to affect future administrative and management-service costs. The Management Company is responsible for all management, operation, administration, and education of the Academy. All Academy personnel are provided by the Management Company. Under the management agreement, the Academy pays the Management Company a fee equal to 10% of the state aid received. For the fiscal year ended June 30, 2026, the Academy incurred approximately $354,300 in management fees.

Contacting the Academy's Financial Management

This financial report is designed to provide the Academy's stakeholders with a general overview of its finances and to demonstrate accountability for the resources it receives. Questions concerning this report or requests for additional information should be directed to the Chief Administrative Officer or Board Treasurer, Pathways Academy, 11340 E. Jefferson Avenue, Detroit, Michigan 48214, (313) 209-3804.

PATHWAYS ACADEMY
STATEMENT OF NET POSITION
JUNE 30, 2026

	Governmental Activities
Assets	
Cash and cash equivalents	$ 1,882,637
Due From other governmental units	788,321
Deposits	10,000
Prepaid expenses	29,388
Capital assets, net of accumulated depreciation	287,231
Total Assets	2,997,577
Liabilities	
Accounts payable	73,072
Due to educational service provider	22,313
Accrued expenses	31,531
Long-term liabilities - current portion	121,576
Long-term liabilities - long-term portion	126,025
Total Liabilities	374,517
Net Position	
Invested in capital assets, net of related debt	39,630
Unrestricted	2,583,430
Total Net Position	$ 2,623,060

PATHWAYS ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2026

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Governmental Activities: Net (Expenses) Revenues and changes in Net Assets
Governmental Activities				
Instruction	$ 875,905	$ -	$ 166,732	$ (709,173)
Support services	2,207,882	-	241,110	(1,966,772)
Community services	131,423	-	-	(131,423)
Interest on long-term debt	10,119	-	-	(10,119)
Depreciation (unallocated)	133,912	-	-	(133,912)
Total Governmental Activities	$ 3,359,241	$ -	$ 407,842	(2,951,399)
		General Revenues		
		State Aid - Unrestricted		2,729,710
		Other Revenue		320,834
		Total General Revenues		3,050,544
		Change in Net Position		99,145
		Net Position - July 1, 2025		2,523,915
		Net Position - June 30, 2026		$ 2,623,060

PATHWAYS ACADEMY
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2026

	General Fund
ASSETS	
Cash and cash equivalents	$ 1,882,637
Due from other governmental units	788,321
Deposits	10,000
Prepaid expenses	29,388
Total Assets	$ 2,710,346
LIABILITIES AND FUND BALANCES	
Liabilities	
Accounts payable	$ 73,072
Due to educational service provider	22,313
Accrued expenses	31,531
Total Liabilities	126,916
Fund Balances	
Non spendable	29,388
Unassigned	2,554,042
Total Fund Balances	2,583,430
Total Liabilities and Fund Balances	$ 2,710,346

PATHWAYS ACADEMY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2026

Total Fund Balances - Governmental Funds		$ 2,583,430
Amounts Reported for Governmental Activities in the Statement of Net Assets are different because		
Capital Assets used in Governmental Activities are not Financial Resources and therefore, not Reported as Assets in Governmental Funds		
Cost of Capital Assets	791,853	
Accumulated Depreciation	(504,622)	287,231
Long-term libilities are not due and payable in the current period and are not reported in the govermental funds-		
Bond payable including premium and deferred charges		(247,601)
Total Net Position - Governmental Activities		$ 2,623,060

PATHWAYS ACADEMY
GOVERNMENTAL FUNDS
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2026

	General Fund
Revenue	
Federal sources	$ 105,241
State sources	3,032,310
Local sources	320,834
Total Revenue	3,458,385
Expenditures	
Instruction:	
Basic instructions	569,389
Added needs	306,516
Supporting services:	
Pupil support services	401,576
Instructional staff services	149,600
General administration services	459,923
School administration services	476,718
Business services	64,360
Operations and maintenance	331,478
Pupil transportation services	142,583
Central Services	181,644
Community Services	131,423
Captial outlay	365,979
Debt Service:	
Principal & Interest	128,496
Total Expenditures	3,709,685
Excess (Deficiency) of Revenue over Expenditures	(251,300)
Other Financing Sources (Uses)	
Proceeds from long-term debt	365,979
Net Change in Fund Balances	114,679
Fund Balance - July 1, 2025	2,468,751
Fund Balance - June 30, 2026	$ 2,583,430

PATHWAYS ACADEMY

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2026

Net Change in Fund Balances - Total Governmental Funds		114,679
Amounts Reported for Governmental Activities in the Statement of Activities are different because:		
Governmental Funds report Capital Outlay as Expenditure in the Statement of Activities, these Costs are Allocated over their Estimated Useful Lives as Depreciation		
Depreciation Expense	(133,912)	
Capitalized Capital Outlay Expense	365,979	232,067
Repayment of note principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	118,378	
Proceeds from long-term debt	(365,979)	(247,601)
Change in Net Position - Governmental Activities		99,145

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Pathways Academy (the "Academy") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

A. Reporting Entity

Pathways Academy is a public school academy that provides instructional and support services to middle and high school students from seventh to the twelfth grades. The Academy was formed as a public school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994.

The Academy entered into a three-year contract with Detroit Public Schools Community District to charter a public school academy on May 13, 2022, effective July 1, 2022, through June 30, 2025. In June of 2025, a new contract was executed with a term ending June 30, 2028. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. Detroit Public Schools Community District is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays the Detroit Public Schools Community District three percent of State aid as an administrative fee. The total administrative fee paid through June 30, 2026 to the Detroit Public Schools Community District was approximately $84,200.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational and financial relationships that determine which of the governmental organizations are a part of the Academy's reporting entity, and which organizations are legally separate, component units of the Academy. Based on application of the criteria, the entity does not contain component units.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of Net Position and the statement of changes in Net Position) report information on all of the nonfiduciary activities of the primary government. Substantially all interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational and capital requirements of a particular function.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-Wide Statements

The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The effect of the interfund activity has been substantially eliminated from the government-wide financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all unrestricted State aid.

Fund-Based Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as required under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

The Academy also receives revenue from the State to administer certain categorical educational programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received which are not expected to be expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

The Academy reports the following major governmental fund:

General Fund

The General Fund is used to record the general operation of the Academy pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

D. Assets, Liabilities, and Net Position or Equity

Deposits, Cash Equivalents, and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturity of three months or less from the date of acquisition to be cash equivalents.

The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Academy evaluates each financial institution it deposits Academy funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk are used as depositories.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Position or Equity (Continued)

Deposits, Cash Equivalents, and Investments (Continued)

The Academy is authorized by Michigan Compiled Laws, Section 129.91 to invest surplus monies in federally insured United States banks, credit unions, and savings and loan associations that have offices in Michigan. The Academy is also authorized to invest in bonds and notes, certain commercial paper, U.S. Government repurchase agreements, bankers' acceptances and mutual funds and investment pools that are composed of authorized investment vehicles.

Capital Assets

Capital assets, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. Right to use assets of the Academy are amortized using the straight-line method over the shorter of the lease period or the estimated useful lives. The Academy does not have any infrastructure-type assets. The other capital assets of the Academy are depreciated using the straight-line method using the following useful lives:

Furniture and other equipment	5 – 20 years

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Position or Equity (Continued)

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of Net Position. In the fund financial statements, governmental fund types recognize bond proceeds, premiums and discounts, as well as issuance costs, during the current period.

Fund Equity

The Academy has adopted GASB 54 as part of its fiscal year reporting. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the Academy's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on those resources.

GASB 54 provides for two major types of fund balances, which are non-spendable and spendable. Non-spendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. This category typically includes prepaid items and inventories.

In addition to non-spendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

a. *Restricted fund balance* – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

b. *Committed fund balance* – amounts constrained to specific purposes by the Board; to be reported as committed, amounts cannot be used for any other purpose unless the Board takes action to remove or change the constraint.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Position or Equity (Continued)

Fund Equity (Continued)

c. *Assigned fund balance* – amounts the Board intends to use for a specific purpose; intent can be expressed by the Board or by an official or committee to which the Board delegates the authority.

d. *Unassigned fund balance* – amounts that are available for any purpose; these amounts are reported only in the general fund.

The Academy follows the policy that restricted, committed, or assigned amounts will be considered to have been spent when an expenditure is incurred for purposes for which both unassigned and restricted, committed, or assigned fund balances are available. There are no governmental funds with a deficit.

Comparative Data

Comparative data is not included in the Academy's financial statements.

District-wide financial statements (statement of Net Position and statement of activities) prepared using full accrual accounting for all of the Academy's activities have been provided.

Capital assets of $287,229 are currently recorded in the governmental activities column of the statement of Net Position.

The fund financial statements focus on major funds rather than fund types.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Position or Equity (Continued)

Budgetary Data

The Academy is legally subject to the budgetary control requirements of the State of Michigan P.A. 621 of 1978 (the Uniform Budgetary Act). The following is a summary of the requirements of the Act:

1. Budgets must be adopted for the General Fund and Special Revenue Funds.
2. The budgets must be balanced.
3. The budgets must be amended when necessary.
4. Public hearings must be held before budget adoptions.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures must be authorized by a budget before being incurred.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The Academy formally adopted General Fund budgets by function for the fiscal year ended June 30, 2026. Expenditures at this level in excess of amounts budgeted are a violation of Michigan law. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. No encumbrances were outstanding in the General Fund and Special Revenue Funds at June 30, 2026. During the current year, the budget was amended in a legally permissible manner.

The combined statement of revenues, expenditures and changes in fund balances – all governmental fund types is presented in conformity with generally accepted accounting principles. The combined statement of revenues, expenditures and changes in fund balances – budget and actual is presented on the same basis of accounting used in preparing the adopted budget.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Excess of Expenditures over Appropriations in Budgeted Funds - During the year, the Academy incurred expenditures in the General Fund, which in the aggregate were not in excess of the overall department amounts budgeted.

	Budget	Actual	Variance
Basic instruction	$ 498,533	$ 569,389	$ 70,856
Added Needs	266,783	306,516	39,733
Pupil support	358,849	401,576	42,727
Operations and maintenance	456,569	331,478	(125,091)

NOTE 3 - DEPOSITS

State statutes and the Academy's investment policy authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan; the Academy is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Academy's deposits are in accordance with statutory authority. The Academy has designated one bank for the deposit of its funds and has not adopted any other formal investment policy.

The Academy's cash is subject to custodial credit risk, which is examined in more detail below:

Custodial Credit Risk of Bank Deposits – Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy evaluates its depositories and only those with an acceptable risk level are used for the Academy's deposits. The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits.

At year end, the Academy's deposits were reported in the basic financial statements as cash and cash equivalents of $1,882,637.

The deposits of the Academy were reflected in the accounts of the financial institution at $1,897,768 of which $750,000 is covered by federal depository insurance.

NOTE 4 - CAPITAL ASSETS

Capital assets activity of the Academy's governmental activities was as follows:

	Balance July 1, 2025	Additions	Disposals	Balance June 30, 2026
Assets being depreciated/amortized:				
Right to use asset	$ 329,711	$ 365,979	$ 329,711	$ 365,979
Leasehold improvements	159,627	-	-	159,627
Computer equipment	189,804	-	-	189,804
Furniture	76,443	-	-	76,443
Total capital assets being depreciated/amortized	755,585	365,979	329,711	791,853
Accumulated depreciation/amortization:				
Right to use asset	329,711	121,654	329,711	121,654
Leasehold improvements	111,740	10,642	-	122,382
Computer equipment	182,527	1,616	-	184,143
Furniture	76,443	-	-	76,443
Total accumulated depreciation/amortization	700,421	133,912	329,711	504,622
Net capital assets	$ 55,164	$ 232,067	$ -	$ 287,231

Depreciation expense was not charged to specific activities as the Academy considers its assets to impact multiple activities and allocation is not practical.

NOTE 5 - DUE FROM OTHER GOVERNMENTS

Intermediate school district source receivable	$ 73,375
State source receivable	613,055
Federal source receivable	101,891
Total due from other governments	$ 788,321

All receivables were collected subsequent to year end.

NOTE 6 - LONG-TERM DEBT

Long-term obligations as of June 30, 2026 can be summarized as follows:

Loan Information

	Interest Rate	Maturity Date	Other
Building Lease	3.60%	June, 2028	Right to use lease of building for operations.

Loan Activity

	Balance July 1, 2025	Additions	Retirements and Payments	Balance June 30, 2026	Due Within One Year
Building Lease	$ -	$ 365,979	$ 118,378	$ 247,601	$ 121,576

Following is the maturity of long-term obligation for principal and interest for the next two

	Principal	Interest
2027	$ 121,576	$ 6,921
2028	$ 126,025	$ 2,471
Total	$ 247,601	$ 9,392

NOTE 7 - RISK MANAGEMENT

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions and employees' injuries (workers compensation), as well as medical benefits provided to employees. The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since inceptions.

NOTE 8 - MANAGEMENT AGREEMENT

In June 2019, the Academy entered into a management agreement with Innovative Educational Programs of Michigan, LLC ("IEP") to provide education management services. The Academy executed an agreement during the previous school year to align with the new authorizer contract with a term ending June 30, 2028. The Academy is obligated to pay IEP varying amounts based upon the services provided according to the contract. The fee is mutually agreed upon annually and each payment to IEP is approved by the board at a regularly scheduled open meeting. The fee for the 2025-2026 school year amounted to approximately $354,300.

NOTE 9 - MSPERS LIABILITY

The Academy contracted with Innovative Educational Programs of Michigan, LLC to provide all staffing personnel during the year under audit. Consequently, all staffing cost is treated as purchased services in these financial statements. The Academy has no obligation to fund the Michigan Public School Employees Retirement System for the year ended June 30, 2026.

NOTE 10 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 29, 2026, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

PATHWAYS ACADEMY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2026

	Original Budget	Final Budget	Actual	*Over (Under) Final Budget*
Revenue				
Federal sources	$ 101,000	102,387	$ 105,241	*$ 2,854*
State sources	3,040,080	3,183,138	3,032,310	*(150,828)*
Local sources	298,000	301,678	320,834	*19,156*
Total Revenue	3,439,080	3,587,203	3,458,385	*(128,818)*
Expenditures				
Instruction:				
Basic instructions	596,670	498,533	569,389	*70,856*
Added needs	217,565	266,783	306,516	*39,733*
Supporting services:				
Pupil support services	350,456	358,849	401,576	*42,727*
Instructional staff services	206,842	179,207	149,600	*(29,607)*
General administration services	483,100	467,482	459,923	*(7,559)*
School administration services	331,708	505,684	476,718	*(28,966)*
Business services	64,800	67,529	64,360	*(3,169)*
Operations and maintenance	425,476	456,569	331,478	*(125,091)*
Pupil transportation services	194,427	148,822	142,583	*(6,239)*
Central Services	237,390	219,483	181,644	*(37,839)*
Community Services	157,247	165,676	131,423	*(34,253)*
Captial outlay	-	-	365,979	365,979
Debt Service:				
Principal & Interest	-	-	128,496	*128,496*
Total Expenditures	3,265,681	3,334,617	3,709,685	*375,068*
Excess of Revenue over Expenditures	173,399	252,586	(251,300)	*(503,886)*
Other Financing Sources (Uses)				
Proceeds from long-term debt	-	-	365,979	365,979
Net Change in Fund Balance	173,399	252,586	114,679	*(137,907)*
Fund balance - July 1, 2025	2,468,751	2,468,751	2,468,751	-
Fund balance - June 30, 2026	$ 2,642,150	$ 2,721,337	$ 2,583,430	*$ (137,907)*